

# REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF MANDENI MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying financial statements of the Mandeni Municipality which comprise the balance sheet as at 30 June 2008 income statement, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 54 to 69.

### Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity specific basis of accounting as set out in accounting policy note 1.1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) MFMA and the Division of Revenue Act, 2007 (Act No. 1 of 2007 (DoRA). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

### Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
  - appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.



### Basis of accounting

8. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in accounting policy note 1.1.

### Opinion

9. In my opinion the financial statements of the Mandeni Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended have been prepared, in all material respects, in accordance with the basis of accounting as set out in accounting policy note 1.1 and in the manner required by the MFMA and DoRA.

### OTHER MATTERS

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

## Non-compliance with applicable legislation

### Municipal Finance Management Act

10. An effective revenue collection systems, as required by section 64(2)(a) of the MFMA, did not exist during the year under review.
11. A reconciliation on a weekly basis of all revenue received, as required by section 64(2)(h) of the MFMA, did not exist during the year under review.

### Municipal Systems Act

12. An effective oversight and monitoring process for the implementation and enforcement of the municipality's credit control and debt collection policy and by-laws, as required by section 99(a) of the MSA, did not exist during the year under review.

## Matters of governance

13. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
<b>Audit committee</b>		
The municipality had an audit committee in operation throughout the financial year.		
The audit committee operates in accordance with approved, written terms of reference.		
The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		
<b>Internal audit</b>		
The municipality had an internal audit function in operation throughout the financial year.		
The internal audit function operates in terms of an approved internal audit plan.		
The internal audit function substantially fulfilled its responsibilities for the		



Matter of governance	Yes	No
year, as set out in section 165(2) of the MFMA.		
<b>Other matters of governance</b>		
The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA.		
The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.		
The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		
No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		
The prior year's external audit recommendations have been substantially implemented.		
<b>Implementation of Standards of Generally Recognised Accounting Practice (GRAP)</b>		
The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.		
The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.		
The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.		

#### Unaudited supplementary schedules

14. The supplementary information set out on pages 70 to 75 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion on them.

### OTHER REPORTING RESPONSIBILITIES

#### REPORT ON PERFORMANCE INFORMATION

15. I have reviewed the performance information as set out on pages 11 to 38.

#### Responsibility of the accounting officer for the performance information

16. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

#### Responsibility of the Auditor-General

17. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.



18. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
19. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

## Audit findings (performance information)

### Non-compliance with regulatory requirements

#### Internal auditing of performance information

20. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required by section 14(1) of the Municipal Planning and Performance Management Regulations 2001 read with section 45 of the MSA.

### OTHER REPORTS

## Investigations

21. Two forensic investigations are pending:

- An investigation into unauthorised access to the municipality's Cash Management Systems (payments system) involving unauthorised payments amounting to R101 000, in the prior year.
- An investigation into the theft of a safe which included cash takings for the Ilembe water account debtors, in the prior year.

### APPRECIATION

22. The assistance rendered by the staff of the Mandeni Municipality during the audit is sincerely appreciated.

*Auditor-General*

Pietermaritzburg

28 November 2008



AUDITOR - GENERAL



## REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 30 June 2008

### 1. Audit Committee Members and Attendance

The audit committee consists of the members listed hereunder and meets, at a minimum, four times per annum as per its approved terms of reference.

Name of Member	Number of Meetings Attended
Mr. J. R. Hunt (Chairperson)	6
Mr. B.M. Radebe	6
Adv. M.N.P. Mtshali	6
Mr. M Press	3
Mr. D Mbatha	2

### 2. Audit Committee Responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 166 of the Municipal Finance Management Act. The Audit Committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

During this financial year the Audit Charter was expanded to include performance management however the Audit Committee was not able to discharge this additional function as PMS training was only able to be undertaken during October, 2008.

### 3. The Effectiveness of Internal Control

The system of internal control is effective as per the report of the Internal Auditors, the Auditor General's Report on the Annual Financial Statements; the matters of emphasis and management letter. The Auditor-General have not reported any significant or material non compliance with prescribed policies and procedures.

### 4. The quality of in year management and monthly reports submitted in terms of the Act and the Division of Revenue Act

The Audit Committee is satisfied with the content and quality of monthly reports prepared and issued by the Accounting Officer during the year under review.

### 5. Internal Audit

The Audit Committee is satisfied with the reports presented by the Internal Auditor and steps have now been taken for the Internal Auditor to undertake 4 visits per year to ensure that regular reports are presented spanning the entire financial year.

The Internal Auditors two year Plan has been reviewed and accepted by the Audit Committee.





## 6. Evaluation of Financial Statements

The Audit Committee has

- Reviewed and discussed with the Auditor-General and the Accounting Officer the audited annual financial statements to be included in the annual report;
- Reviewed the Auditor-General's management letter and management response;
- Reviewed changes in accounting policies and practices
- Reviewed significant adjustments resulting from the audit

The Audit Committee concurs and accepts the conclusions of the Auditor-General on the annual financial statements and is of the opinion that the annual financial statements be accepted and read together with the report of the Auditor-General.

## 7. Auditor General's Opinion for the year ending 30<sup>th</sup> June, 2008

The Audit Committee is pleased that the Auditor General's opinion was presented without qualification this year.

The issues and comments contained within the report have been noted and will be given attention during the forthcoming year.

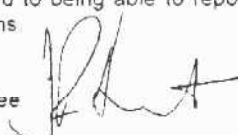
We are pleased to report that the Auditor General's representative was able to attend a number of our Audit Committee meetings and his participation was appreciated

## 8. The Year Ahead

The level of debt continues to be of concern to the Audit Committee, the Accounting Officer and the Municipality. During the forthcoming year the Audit Committee will continue to closely monitor the situation and the effectiveness of the debt collection measures.

Now that Performance Management Training has been undertaken the Audit Committee looks forward to being able to report on this function in accordance with the regulations.

John R Hunt  
Chairperson of the Audit Committee



Date 21 Jan 2009



## AUDIT QUERIES MANAGEMENT REPORT

ACTIVITY	RESPONSIBLE PERSON	TIME-FRAME	STATUS
1. Training of the Audit Committee by Provincial Treasury.	CFO	31 January 2009	Treasurer to do training before the end of March 2009
2. Internal Auditor to include performance management.	CFO	9 January 2009	Implemented
3. GRAP Implementation Plan to be submitted to Treasuries.	CFO	28 February 2009	Implemented
4. Forensic Investigations – Municipality to meet investigating officers.	1. Management 2. Head: Public Safety	21 December 2009	1 case closed but still to meet investigators before end of February 2009
5. Improve collections – of Credit worx and Debt Pack.	CFO	19 December 2009	New programme approved and process started
6. MAMS – To add more modules in the system.	CFO	30 June 2009	Process started
7. Councillors UIF – To get communication from the Department of Labour – To be included in the Council Agenda.	Director: Corporate Services	-	Implemented
8. Finance to send information about rentals to the valuers and Corporate Services to implement.	Director: Corporate Services	31 January 2009	Implemented
9. Authorisations on Master files.	CFO	-	Implemented
10. Asset Register to be Reconciled with the Valuation Roll.	CFO	30 June 2009	Process started
11. Website – Corporate Services to check implementation of Section 75 of the MFMA.	Corporate Services	31 January 2009	Implemented
12. Budgetary Process to be aligned with SDBIPs.	CFO	31 January 2009	Implemented
13. Withdrawals to be reported by the Finance monthly.	CFO	-	Implemented
14. Sick leave – 3 sick days in 8 weeks needs a sick note – MANCO agenda and Corporate Services to check.	Corporate Services	28 February 2009	Implemented



## OVERSIGHT COMMITTEE REPORT

### OVERSIGHT COMMITTEE REPORT ON 2007/2008 ANNUAL REPORT

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#### 1. REPORT

The Oversight Committee sat on the 19<sup>th</sup> of February 2009 at 10h15 and 19 March 2009 at 15h30 to consider the 2007/2008 Annual Report as required by S129(1) of the MFMA of 2003 which states that:

*The Council of a municipality must consider the annual report of the municipality and of any municipal entity under the municipality's sole or shared control, and by no later than two months from the date on which the annual report was tabled in the council in terms of section 127, adopt an oversight report containing the council's comments on the annual report, which must include a statement whether the council –*

- a) Has approved the annual report with or without reservations*
- b) Has rejected the annual report; or*
- c) Has referred the annual report back for revision of those components that can be revised,*

The Annual Report has the following parts:

#### 1.1 ANNUAL REPORT BY THE MAYOR AND DEPARTMENTS

The Committee noted the report on the performance of the municipality as outlined by the different departments and is fairly satisfied with the way information is presented and the structure of the annual report. The report mainly presents the achievements, challenges, priorities and budget expenditure by respective departments of the municipality.

#### 1.2 AUDITOR-GENERAL'S REPORT

The Committee also discussed the Audit Report including the progress report on the queries raised by the Auditor-General. The Committee congratulated the municipality for having received an unqualified Audit Report in the 2007/2008 financial year. A concern was raised with regard to the slow-pace of the collection of revenue especially the outstanding debt.

#### 1.3 AUDIT COMMITTEE REPORT

The Committee discussed the report and was happy with how it was presented. Although the Audit Committee seems to be functioning effectively there is however great need to ensure that they are trained by Provincial Treasury to enable them to perform to the best of their abilities.





#### 1.4 ANNUAL FINANCIAL STATEMENTS

The Committee discussed the Annual Financial Statements and was satisfied with clarity provided by management and congratulated the municipality for submitting the Annual Financial Statements in time.



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**MR K PALMER**  
**CHAIRPERSON: OVERSIGHT COMMITTEE**

